

Internal Revenue Service
P.O. Box 2508
Cincinnati, OH 45201

Department of the Treasury

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Employer Identification Number:

Contact person - ID number:

Contact telephone number:

LEGEND

UIL: 4945.04-04

X=
Y=

Dear :

You asked for advance approval of your employer-related scholarship grant procedures under Internal Revenue Code section 4945(g). This approval is required because you are a private foundation that is exempt from federal income tax. You requested approval of your scholarship program to fund the education of certain qualifying students.

Our determination

We approved your procedures for awarding employer-related scholarships. Based on the information you submitted, and assuming you will conduct your program as proposed, we determined that your procedures for awarding employer-related scholarships meet the requirements of Code section 4945(g)(1). As a result, expenditures you make under these procedures will not be taxable.

Also, awards made under these procedures are scholarship or fellowship grants and are not taxable to the recipients if they use them for qualified tuition and related expenses (subject to the limitations provided in Code section 117(b)).

Description of your request

Your letter indicates you will operate an employer-related scholarship program for the children of X consultants.

You will use scholarship grants for undergraduate or graduate study at an educational institution that normally maintains a regular faculty and curriculum described in Code section 170(b) (1) (A) (ii). You will pay grants directly to the educational institution.

You will award scholarship grants in an objective and nondiscriminatory manner. Any child of a consultant holding a pin level of Y or above and in good standing with an X

member company will be eligible to apply; however, relatives of your board members or officers will not be eligible for grants.

Applicants may obtain an application through the X website. You will base the amount of a grant on your available resources and the financial needs of the applicant. Criteria that will be used to select recipients will include prior academic performance, financial need, recommendations from instructors and/or colleagues, entrance exam scores, community involvement and extracurricular activities, and educational awards, honors and achievements. You will give preference to applicants raised by a single parent whose spouse suffered a premature death.

For every grant made by you, you will require an annual report, verified by the educational institution attended by the grantee, of courses taken and the grantee's grades in those courses. A grant recipient may apply to renew a grant; however, a grantee who does not submit the annual report mentioned above along with a current federal student aid report would not be eligible for grant renewal. If an applicant fails to fulfill the terms of a grant, the remaining grant funds, if any, shall be subject to immediate return.

You will arrange to receive and review grantee reports annually and upon completion of the scholarship, investigate diversions and/or suspected diversions of funds from their intended purposes. If such diversions occur, you will take all reasonable and appropriate steps to recover diverted funds, ensuring the use of your funds by the grantee for their intended purposes. You will withhold further payments to a grantee suspected of diversion until you obtain assurance that future diversions will not occur and that the grantee will take extraordinary precautions to prevent future diversions from occurring.

You will maintain records identifying recipients of the grants, including names, addresses, purposes of awards, amount of each grant, manner of selection, and relationship (if any) to your officers, directors, or donors. Its records for each individual grant will include information obtained to evaluate the grantee, identify whether the grantee is an eligible applicant, establish the amount and purpose of each grant, and establish that it undertook the supervision and investigation of grants described above.

The number of grants that you will make annually will depend on the number of qualified applicants and your available financial resources. In addition to the procedures outlined above, Taxpayer will comply with the requirements of Revenue Procedure 76-47.

Your selection committee consists of three retired academicians who are independent from X. The committee will have exclusive rights to select recipients and establish amounts of grants. You may reduce, but may not increase, the number of scholarships recommended by the committee.

Courses of study for which scholarship grants are available will not be limited to those that would be of particular benefit to X. The terms of a scholarship grant will be consistent with the disinterested purpose of enabling a grantee to obtain an education for his or her personal benefit.

A scholarship will not terminate because the recipient's parents end their relationship with X. For scholarships awarded for more than one academic year, you will base renewal solely on criteria unrelated to the relationship of the recipient's parents with X.

The number of scholarship grants awarded every year will satisfy the percentage test described above Revenue Ruling 76-47.

You and X verify applicant eligibility for the selection committee, which consists wholly of individuals independent from you, its organizer and X. The selection committee will send their recommendations to you and you will make awards in the order recommended by your selection committee. You and your selection committee will ensure that the number of awards to children of X employees does not exceed the 25 percent threshold.

Basis for our determination

The law imposes certain excise taxes on the taxable expenditures of private foundations (Code section 4945). A taxable expenditure is any amount a private foundation pays as a grant to an individual for travel, study, or other similar purposes. However, a grant that meets all of the following requirements of Code section 4945(g) is not a taxable expenditure.

- The foundation awards the grant on an objective and nondiscriminatory basis.
- The IRS approves in advance the procedure for awarding the grant.
- The grant is a scholarship or fellowship subject to Code section 117(a).
- The recipient may use the scholarship for study at an educational organization described in Code section 170(b) (1) (A) (ii).

Revenue Procedure 76-47, 1976-2 C.B. 670, provides guidelines to determine whether grants a private foundation makes under an employer-related program to employees or children of employees are scholarship or fellowship grants subject to the provisions of Code section 117(a). If the program satisfies the seven conditions in sections 4.01 through 4.07 of Revenue Procedure 76-47 and meets the applicable percentage tests described in section 4.08 of Revenue Procedure 76-47, we will assume the grants are subject to the provisions of Code section 117(a).

You represented that your grant program will meet the requirements of either the 25 percent or 10 percent percentage test in Revenue Procedure 76-47. These tests require that:

- The number of grants awarded to employees' children in any year won't exceed 25 percent of the number of employees' children who were eligible for grants, were applicants for grants, and were considered by the selection committee for grants, or
- The number of grants awarded to employees' children in any year won't exceed 10 percent of the number of employees' children who were eligible for grants (whether or not they submitted an application), or
- The number of grants awarded to employees in any year will not exceed 10 percent of the number of employees who were eligible for grants, were applicants for grants, and considered by the selection committee for grants.

You further represented that you will include only children who meet the eligibility standards described in Revenue Procedure 85-51, 1985-2 C.B. 717, when applying the 10 percent test applicable to employees' children.

In determining how many employee children are eligible for a scholarship under the 10 percent test, a private foundation may include only those children who submit a written statement or who meet the foundation's eligibility requirements. They must also satisfy certain enrollment conditions.

You represented that your procedures for awarding grants under this program will meet the requirements of Revenue Procedure 76-47. In particular:

- An independent selection committee whose members are separate from you, your creator, and the employer will select individual grant recipients.
- You will not use grants to recruit employees nor will you end a grant if the employee leaves the employer.
- You will not limit the recipient to a course of study that would particularly benefit you or the employer.

Other conditions that apply to this determination:

- This determination only covers the grant program described above. This approval will apply to succeeding grant programs only if their standards and procedures do not differ significantly from those described in your original request.
- This determination is in effect as long as your procedures comply with sections 4.01 through 4.07 of Revenue Procedure 76-47 and with either of the percentage tests of section 4.08. If you establish another program covering the same individuals, that program must also meet the percentage test.
- This determination applies only to you. It may not be cited as a precedent.
- You cannot rely on the conclusions in this letter if the facts you provided have changed substantially. You must report any significant changes to your program to the Cincinnati Office of Exempt Organizations at:

Internal Revenue Service
Exempt Organizations Determinations
P.O. Box 2508
Cincinnati, OH 45201

- You cannot award grants to your creators, officers, directors, trustees, foundation managers, or members of selection committees or their relatives.
- All funds distributed to individuals will be made on a charitable basis and further the purposes of your organization. You cannot award grants for a purpose that is inconsistent with Code section 170(c) (2) (B).
- You should keep adequate records and case histories so that you can substantiate your grant distributions with the IRS if necessary.

We have sent a copy of this letter to your representative as indicated in your power of attorney.

Please keep a copy of this letter in your records.

If you have questions, please contact the person listed at the top of this letter.

Sincerely,

Director, Exempt Organizations